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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 000712

SIPDIS

NEA/I FOR MATT AMITRANO

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TAGS: ECON ENRG IZ TU  
SUBJECT: IRAQ GAS TO TURKEY BY 2012?

REF: A. 08 ANKARA 1680  
    1B. 08 ANKARA 1710  
    1C. 08 ANKARA 1754

Classified By: Economic Counselor Dale Eppler for reasons 1.4 (b) (d)

¶1. (C) Summary. On May 13, Ambassador Jeffrey discussed a project to bring natural gas from northern Iraq to Turkey by as early as 2012 with the one the project developers, Kazim Turker, CEO of Turkerler. Turker was upbeat and confident in describing recent project milestones including a recent letter of support for the project from Iraqi President Talabani. He expects more progress soon, including the issuance of a license from the Turkish authorities to import gas from Iraq which he expected to receive within the "next 15 days." Turker described the strategic importance of the project in terms of linking Iraq with European gas markets and the possibility of this gas supporting Nabucco. Ambassador stressed the success of this project depends on getting support from the central government of Iraq. Turker agreed and shared his plan for making this happen. End summary.

¶2. (C) Ambassador Jeffrey and Turkerler CEO Kazim Turker reviewed five reasons to be optimistic about the project to bring natural gas from northern Iraq to Turkey and world markets.

-- The discussions between Turker and his partners in Iraq had progressed and the project is becoming more concrete;

-- Dana Gas (Turker's partner in Iraq) is already producing natural gas, so the time horizon for export is shorter than for projects starting at the exploration phase;

-- The central government in Baghdad and international oil companies working in northern Iraq have reached an agreement to export oil, which could serve as a model for this project; (Note: There are still some glitches with this deal. The issue of how the IOCs will get paid is unresolved. End note.);

-- President Talabani recently wrote a letter of support for the project; and

-- Turkey is close to issuing the necessary permits and licenses for construction of a pipeline to begin on the Turkish side.

¶3. (C) Ambassador Jeffrey stressed the importance of getting Iraq central government's approval for this project and added the two key people were Prime Minister al-Maliki and Energy Minister Shahristani. He also stressed that our priority is to get the new hydrocarbon legislation passed, which would improve the investment climate in the oil and gas sector. Turker said he expected to be granted the natural gas import license from Turkey soon (see para 7) and would take all the

project details prepared for the license together with Talabani's letter to Baghdad and ask for support. Turker believes the details of the project including the price Turker will offer to pay Iraq for the gas and the profit the central government will stand to make will entice Baghdad to agree.

#### Project Background

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¶4. (SBU) Turkerler is a large company working in the energy, construction, port operation and tourism sectors. Turkerler is proposing a 20 bcm/a capacity pipeline. They have experience in pipeline building and operation of city natural gas distribution companies. Turkerler's involvement with the project starts at the border. They would build a pipeline from the Iraq/Turkey border, either to connect with BOTAS (national oil and gas company) lines or as a dedicated line that could either connect to the proposed Nabucco pipeline or use the same routing as the existing Kirkuk Yumurtalik line to the Ceyhan port (where construction of an LNG plant has long been planned).

¶5. (SBU) Turkerler and a Middle Eastern oil company, Crescent Petroleum, have formed a 50/50 joint venture in Turkey called Inci gas which has applied to the Turkish energy market regulator (EMRA) for a license to import, transit and export natural gas. Getting a license is not easy and companies may not compete with the government-owned monopoly oil and gas importer BOTAS. However, Inci's deal is not considered competition because BOTAS is not currently importing any gas from Iraq. The license will cover a

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30-year period and it looks more and more likely that EMRA will grant it.

Where will the gas come from?

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¶6. (SBU) Crescent Petroleum's affiliate Dana Gas has a service agreement with the KRG to develop, process and transport natural gas from Khor Mor and Chemchemal gas fields. According to Turker, gas is already being produced at Khor Mor field for use at a local electricity power generation plants. Dana gas has a contract with Inci to deliver 3 bcm to the Turkish Iraqi border in 2012, 5 bcm/a in 2013, 8.5 bcm/a in 2014 and reach the plateau level of 10 bcm/a in 2015. Turker maintains these two reservoirs will have enough gas to fulfill northern Iraq's demand for gas (estimated at about 5bcm/a) and to export 10 bcm/a to Turkey. Within Iraq, a northern gas pipeline stretching from the Khor Mor field to the Turkey/Iraq border is about 1/2 complete (roughly 180 km). While not currently involved in the project from the Iraq side, Turker said Inci has an option to invest in Dana Gas' upstream development or build the pipeline in Iraq.

#### Current Status

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¶7. (C) Turker told the Ambassador that all the technical aspects of the license application were completed. He only needs two additional things in order for EMRA to grant the license: the support of BOTAS and of Energy Minister Taner Yildiz. Turker showed us a signed document between his company and BOTAS representing agreement on the project and said he planned to meet with Yildiz on May 14 to discuss the issue. Turker, who is reportedly a close personal friend of the PM, said the PM supports the project and he expected Yildiz would do the same. Turker said the license would be approved in about 15 days. (Comment: While this is clearly a positive signal for the project, it reveals the weakness of the energy regulator which is apparently subservient to political demands. End comment.)

¶8. (C) Comment: We believe this project supports U.S.

policy goals in the region. If developed, Iraqi gas exports to Europe could heighten European interest in Iraq and link the futures of these two countries. Additionally, this gas could make an important and significant contribution to the economic viability of a East-West energy corridor. There are, of course, some issues to be worked out. Foremost among them is gaining the support of Baghdad for this project. Also, Turker's estimates for the size of the gas reserves and the timeline for development are more bullish and aggressive than we have seen elsewhere which may mean they are overly optimistic. End comment.

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